

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | | | | | |
|--|--|--------------|--|--|--|--------|--|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | | | Local Government Name | | County | |
| Audit Date | | Opinion Date | | Date Accountant Report Submitted to State: | | | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | |
| Reports on individual federal financial assistance programs (program audits). | | | |
| Single Audit Reports (ASLGU). | | | |

| | | | | |
|---|--|------|-------|----------|
| Certified Public Accountant (Firm Name) | | | | |
| Street Address | | City | State | ZIP Code |
| Accountant Signature | | | Date | |

PORTAGE - BASE LAKES AREA WATER
AND
SEWER AUTHORITY

REPORT ON AUDIT OF FINANCIAL
STATEMENTS AND SUPPLEMENTARY
INFORMATION

FOR THE YEAR ENDED MARCH 31, 2004

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PFEFFER • HANNIFORD • PALKA*Certified Public Accountants*

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August 17, 2004

Portage - Base Lakes Area Water and Sewer Authority
10405 Merrill Road
P.O. Box 726
Hamburg, Michigan 48139

INDEPENDENT AUDITORS' REPORT

Honorable Authority Members:

We have audited the accompanying balance sheet of Portage - Base Lakes Area Water and Sewer Authority as of March 31, 2004, and the related statements of changes in fund equity, revenues and expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the authority, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Portage - Base Lakes Area Water and Sewer Authority as of March 31, 2004, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
BALANCE SHEET
MARCH 31, 2004

ASSETS

CURRENT ASSETS

| | | |
|--------------------------------|----------------|------------|
| Cash and cash equivalents | \$ 351,035 | |
| Accounts receivable - billings | <u>134,824</u> | |
| Total current assets | | \$ 485,859 |

RESTRICTED ASSETS

| | | |
|---|----------------|---------|
| Cash and cash equivalents - equipment replacement | 345,407 | |
| Cash and cash equivalents - debt service | <u>518,112</u> | |
| Total restricted assets | | 863,519 |

PROPERTY, PLANT AND EQUIPMENT

| | | |
|-----------------------------------|------------------|---------------------|
| Land | 115,282 | |
| Sewer system | 10,133,107 | |
| Operating equipment | 7,290 | |
| Office equipment | <u>4,950</u> | |
| | 10,260,629 | |
| Less accumulated depreciation | <u>2,639,502</u> | |
| Net property, plant and equipment | | <u>7,621,127</u> |
| Total assets | | <u>\$ 8,970,505</u> |

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

| | | |
|--|---------------|-----------|
| Accounts payable | \$ 22,920 | |
| Due to other governmental unit - Dexter Township | <u>15,288</u> | |
| Total current liabilities | | \$ 38,208 |

FUND EQUITY

| | | |
|-----------------------------------|--|---------------------|
| Retained earnings | | <u>8,932,297</u> |
| Total liabilities and fund equity | | <u>\$ 8,970,505</u> |

The accompanying notes are an integral part of these financial statements

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
STATEMENT OF CHANGES IN FUND EQUITY
FOR THE YEAR ENDED MARCH 31, 2004

| | <u>Total Fund Equity</u> |
|--------------------------|----------------------------------|
| BALANCE, APRIL 1, 2003 | \$ 9,139,870 |
| ADDITIONS AND DEDUCTIONS | |
| Net loss | <u>(207,573)</u> |
| BALANCE, MARCH 31, 2004 | <u>\$ 8,932,297</u> |

The accompanying notes are an integral part of these financial statements

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED MARCH 31, 2004

OPERATING REVENUES

| | |
|--------------------|---------------|
| Sewer billings | \$ 330,617 |
| Drywell fees | 22,508 |
| Tap-in inspections | <u>14,830</u> |

| | | |
|--------------------------|--|------------|
| Total operating revenues | | \$ 367,955 |
|--------------------------|--|------------|

OPERATING EXPENSES

| | |
|-------------------------------------|--------------|
| Audit and accounting | 7,050 |
| Bank charges | 3,420 |
| Billing charges | 1,303 |
| Contracted services | 20,200 |
| Depreciation | 203,290 |
| Per diem fees | 2,175 |
| Director's wages | 8,487 |
| Engineering and consulting | 9,273 |
| Insurance | 23,415 |
| Retirement | 808 |
| Legal | 644 |
| Miscellaneous | 1,738 |
| Miss Dig - machine | 896 |
| Office supplies | 976 |
| Postage | 462 |
| Printing | 107 |
| Electric | 43,038 |
| Gas | 2,116 |
| Rototilling and mowing | 1,575 |
| Rent - office | 2,100 |
| Repairs and maintenance - equipment | 40,778 |
| Sewer service contract | 73,260 |
| Supplies | 30,628 |
| Taxes - payroll | 649 |
| Telephone | 3,790 |
| Drywell expenses | 101,924 |
| Contingency | <u>5,516</u> |

| | | |
|--------------------------|--|----------------|
| Total operating expenses | | <u>589,618</u> |
|--------------------------|--|----------------|

| | | |
|------------------|--|-----------|
| Operating (loss) | | (221,663) |
|------------------|--|-----------|

NON-OPERATING REVENUES

| | |
|----------------------|--------------|
| Interest income | 11,024 |
| Miscellaneous income | <u>3,066</u> |

| | | |
|------------------------------|--|---------------|
| Total non-operating revenues | | <u>14,090</u> |
|------------------------------|--|---------------|

| | | |
|----------|--|---------------------|
| Net loss | | <u>\$ (207,573)</u> |
|----------|--|---------------------|

The accompanying notes are an integral part of these financial statements

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2004

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

| | | |
|--|-----------|----------------|
| Operating loss | | \$ (221,663) |
| Adjustments to reconcile operating income to net cash from (used in) operating activities | | |
| Miscellaneous income | \$ 3,066 | |
| Depreciation | 203,290 | |
| Changes in assets and liabilities | | |
| (Increase) in accounts receivable | (16,034) | |
| Increase in accounts payable | 6,507 | |
| (Decrease) in accrued liabilities | (248) | |
| Increase in due to other governmental unit | <u>83</u> | |
| Total adjustments | | <u>196,664</u> |
| Net cash (used in) operating activities | | (24,999) |

CASH FLOWS FROM INVESTING ACTIVITIES

| | | |
|---|--------------|---------------|
| Interest earned on operating account | 7,149 | |
| Interest earned on equipment replacement and debt service accounts | <u>3,875</u> | |
| Net cash from investing activities | | <u>11,024</u> |
| Net (decrease) in cash and cash equivalents | | (13,975) |

CASH AND CASH EQUIVALENTS AT APRIL 1, 2003 1,228,529

CASH AND CASH EQUIVALENTS AT MARCH 31, 2004 \$ 1,214,554

The accompanying notes are an integral part of these financial statements

NOTES
TO
FINANCIAL STATEMENTS

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accounts of the Authority are organized as an enterprise fund, which is a proprietary fund type used in fund accounting. The transactions of the fund are summarized by providing a set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses.

Proprietary fund types are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position and changes in cash flow. All assets and liabilities associated with a proprietary fund type's activities are included on its balance sheet.

Enterprise funds are used for activities which are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

B. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Enterprise funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

C. MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

NOTE 2 - DESCRIPTION OF REPORTING ENTITY

The Portage - Base Lakes Area Water and Sewer Authority was established on September 21, 1988, under Act No. 233, Public Acts of Michigan, 1955 as amended. The purpose of this Authority is to acquire, own, improve, enlarge, extend and operate a water supply system, a sewage disposal system, or both. The following units are the incorporating municipal corporations:

| <u>Municipality</u> | <u>Interest</u> |
|---------------------|-----------------|
| Hamburg Township | 35.30 |
| Dexter Township | 32.47 |
| Putnam Township | 24.19 |
| Webster Township | <u>8.04</u> |
| | <u>100.00</u> |

Based on the criteria established by Government Accounting Standards Board (GASB) Statement Number 39, all funds, activities and agencies are included in the Authority's reporting entity.

The Authority Board is composed of two members appointed by the Dexter Township Board and one member appointed by the Hamburg, Putnam, and Webster Township Boards, respectively.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws, Section 129.91 authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS - (continued)

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

| <u>Deposits</u> | <u>Carrying Amount</u> | <u>Bank Balance</u> |
|--------------------------------|----------------------------|-------------------------|
| Insured \$ | 100,000 \$ | 100,000 |
| Uninsured and uncollateralized | <u>1,114,554</u> | <u>1,125,625</u> |
| Total deposits | <u>\$ 1,214,554</u> | <u>\$ 1,225,625</u> |

NOTE 4 - CHANGES IN PROPRIETARY FIXED ASSETS AND ACCUMULATED DEPRECIATION

| | <u>Balance 4/1/03</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 3/31/04</u> |
|--------------------------|---------------------------|-------------------|-------------------|----------------------------|
| Land | \$ 115,282 | \$ | \$ | \$ 115,282 |
| Sewer system | 10,133,107 | | | 10,133,107 |
| Operating equipment | 7,290 | | | 7,290 |
| Office equipment | <u>4,950</u> | <u> </u> | <u> </u> | <u>4,950</u> |
| Total | <u>\$ 10,260,629</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 10,260,629</u> |
| Accumulated depreciation | <u>\$ 2,436,212</u> | <u>\$ 203,290</u> | <u>\$ 0</u> | <u>\$ 2,639,502</u> |

The system is being depreciated over a 50 year period on a straight line basis. Office and operating equipment is being depreciated over a five year period on a straight line basis.

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

NOTE 5 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The indirect method was utilized to present cash flows from operations. The following is a schedule of beginning and ending cash and cash equivalents:

| | <u>April 1, 2003</u> | <u>March 31, 2004</u> |
|---------------------------------|--------------------------|---------------------------|
| Unrestricted | | |
| Cash and cash equivalents | \$ 424,578 | \$ 351,035 |
| Restricted | | |
| Cash and cash equivalents | <u>803,951</u> | <u>863,519</u> |
| Total cash and cash equivalents | <u>\$ 1,228,529</u> | <u>\$ 1,214,554</u> |

NOTE 6 - SEWER BILLINGS

The system currently has 1,242 users. Sewer users are billed \$65.01 per quarter for service.

The quarterly charges are composed of the following:

| | |
|-----------------------------------|-----------------|
| Operation and maintenance | \$ 53.01 |
| Reserve for debt service | 7.20 |
| Reserve for equipment replacement | <u>4.80</u> |
| Total | <u>\$ 65.01</u> |

Transfers of \$35,741 and \$23,827 were made into the debt service and capital replacement accounts, respectively during the year ended March 31, 2004.

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

NOTE 7 - CONSTRUCTION COSTS

The Authority has entered into a contract with Washtenaw County Department of Public Works for the construction of the system pursuant to Act. No. 185 Public Acts of Michigan, 1957 as amended. The county issued bonds to finance this project. The bonds are secured by the full faith and credit of the county. Each municipality has created a special assessment district for affected property owners. The county bills the member townships directly for their pro-rata share of the bond principal and interest. The county maintains a debt service fund on behalf of the Authority. The system's fixed assets are being recorded on the Authority's financial records.

NOTE 8 - RESTRICTED ASSETS

The amounts shown as restricted assets are to be used for debt service and the replacement and improvement of the sewer system and sewer system components.

NOTE 9 - CONTINGENCIES

The Authority is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of the Authority.

NOTE 10 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

PORTAGE - BASE LAKES AREA WATER
AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

NOTE 11 - PENSION PLAN - DEFINED CONTRIBUTION PLAN

The defined contribution plan of Portage-Base Lakes Area Water and Sewer Authority is a fully insured plan funded by both employer and employee contributions. An employee may make voluntary contributions of up to 10% of their annual compensation. All participants are vested 100% immediately. The Authority pays its contributions to Hamburg Township. Hamburg Township in return submits these funds to Manulife on behalf of the Authority.

A participant includes all employees as of the beginning of the plan year (February 1) or after completing one month of service. The Authority pays 10% of compensation as its annual contributions. The plan name is "Group Pension Plan" #001 through Manulife.

Total contributions for the year ended March 31, 2004 was \$808. Total covered payroll was \$8,487.

NOTE 12 - GASB STATEMENT NO. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the statement include the following:

For the first time the financial statements will include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.

The general provisions of GASBS No. 34 must be implemented by the Portage-Base Lakes Area Water and Sewer Authority no later than the fiscal year ending March 31, 2005.

NOTE 13 - SEGMENT INFORMATION

Selected financial information is as follows:

| | |
|-------------------|--------------|
| Operating | |
| Revenues | \$ 367,955 |
| (Loss) | \$ (221,663) |
| Depreciation | \$ 203,290 |
| Total assets | \$ 8,970,505 |
| Total fund equity | \$ 8,932,297 |
| Working capital | \$ 447,651 |

PORTAGE - BASE LAKES AREA WATER
AND
SEWER AUTHORITY

COMMENTS
AND
RECOMMENDATIONS

FOR THE YEAR ENDED MARCH 31, 2004

August 17, 2004

Board of Trustees
Portage-Base Lakes Area Water and Sewer Authority
10405 Merrill Road
P.O. Box 726
Hamburg, MI 48139

Honorable Board of Trustees:

In planning and performing our audit of the financial statements of Portage-Base Lakes Area Water and Sewer Authority for the year ended March 31, 2004, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. Those matters are as follows:

1. COMMENT

Billings did not reconcile to general ledger.

RECOMMENDATION

Reconcile billings on a regular basis to postings in general ledger and verify accounts receivable balances.

This letter does not affect our report dated August 17, 2004 on the financial statements of Portage-Base Lakes Area Water and Sewer Authority.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees, and management of the Portage-Base Lakes Area Water and Sewer Authority.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants